

RD AN No. 3602 (4279-B)  
December 28, 2000

SUBJECT: Business and Industry Guaranteed and Direct Loan Programs  
Eligibility of Loans for Research and Development

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide clarification of questions raised concerning the use of Business and Industry (B&I) Guaranteed and Direct Loan Program funds for businesses involved in research and development (R&D) projects.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-B, sections 4279.113 and 4279.114, which deals with eligible and ineligible loan purposes, is silent concerning the eligibility of research and development projects. The sections are structured so that the loan purpose, in part, determines eligibility rather than whether the project encompasses new, unproven technology. Whenever you receive an application for assistance which would be for an eligible loan purpose, but that project entails an R&D product, a basic concern is whether the proposed project is economically feasible.

When a business (either startup or existing) is financially dependent upon a product in the R&D stage, it must demonstrate that the product or service will generate reliable cash flow to retire the proposed indebtedness, as required by section 4279.131(a), while allowing the business to remain economically viable. Without a proven product, it would be difficult to meet this requirement. However, it may be acceptable to make a loan to an existing business involved in R&D, provided it is demonstrated that these two concerns

EXPIRATION DATE:  
December 31, 2001

FILING INSTRUCTIONS:  
Preceding RD Instructions 4279-B and 1980-E

are satisfied. The purpose of the B&I Guaranteed and Direct Loan Programs is to make quality loans that will provide lasting community benefits. If a business is dependent upon a product in the R&D stage that does not materialize, then the necessary cash flow is not provided to retire the debt. Thus, there would be little chance of lasting community benefits.

If you have any questions, please contact the Business Programs Processing Division, (202) 690-4100.

*(Signed by Wilbur T. Peer)*

WILBUR T. PEER  
Acting Administrator  
Rural Business-Cooperative Service